

No: 95-73
Date: December 8, 1995

FEDERAL HOUSING FINANCE BOARD

Exception to the Financial Management Policy

WHEREAS, the Financial Management Policy (FMP) authorizes the use of indexed principal swaps (IPS) for hedging purposes; and

WHEREAS, Section V.C.5.c of the FMP generally prohibits the Federal Home Loan Banks (Banks) from entering into IPS that have average lives that vary by more than six years under an assumed instantaneous change in interest rates of 300 basis points; and

WHEREAS, Section V.C.5.c exempts from this general restriction IPS entered into in conjunction with the issuance of consolidated obligations in which the interest rate risk is passed through to the investor; and

WHEREAS, The Federal Home Loan Bank of Dallas is requesting that section V.C.5.c of the FMP be amended to also allow the Banks to enter into IPS with average lives that vary by more than six years under an assumed instantaneous 300 basis point interest rate shock, provided the IPS are used to hedge permissible investments; and

WHEREAS, the Fiance Board has determined that permitting the Banks to enter into IPS with weighted average lives that vary by more than six years under an assumed instantaneous 300 basis point shock in order to hedge permissible investments will expand the Banks' investment opportunities without materially affecting their risk exposure;

NOW THEREFORE BE IT RESOLVED, that the FHLBanks may through January 31, 1996 enter into IPS with average lives that vary by more than six years under an assumed instantaneous 300 basis point shock, provided the IPS acts to fully hedge the extension/contraction risk of a permissible investment.

By the Board of Directors of the
Federal Housing Finance Board


Bruce A. Morrison, Chairman